

Idaho State Employee Compensation Report and Recommendations



Report to the Governor

State Employee Compensation



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Executive Overview

Executive Summary

As required by Idaho Code Sections 67-5309A and 67-5309B, the Division of Human Resources Administrator provides the Governor this annual report on state employee compensation and recommendations for change. New for 2004 is the requirement for an annual benefit survey in this report.

State Employee Salary Goals

The intent of the Legislature is that state employees may expect to advance in the salary range to the labor market average rate for the pay grade assigned to their classification. To provide a market average pay rate, salary ranges need to be adjusted each year to reflect the increase in the market. Funding also needs to be provided to keep

current employees' salaries at, or progressing toward, market. The market pay rate philosophy collapses when consistent funding is not available for these two key components. The challenge to fund state employee pay increases appears to have surfaced in 1980. The pay disparity has compounded each year as the state has been unable to fund market competitive employee pay increases.

Job Market Surveys

Salary surveys provide compensation data that allows DHR to compare state employee pay to that of other public and private employers. Results this year show the state lags in all occupational categories.

FY2006				
<u>Occupation Group</u>	<u>Weighted</u>		<u>Market Position</u>	<u>Market Adjustment</u>
	<u>Idaho State Avg Salary</u>	<u>Market Avg Salary</u>		
Information Technology	\$42,057	\$52,800	-20.3%	25.5%
Finance and Accounting	\$34,149	\$36,214	-5.7%	6.0%
Science/Environmental	\$44,194	\$44,879	-1.5%	1.6%
Health Care - Medical	**	**	**	**
Health Care - Services	\$36,517	\$40,802	-10.5%	11.7%
Nursing Sub Group	\$37,604	\$45,158	-16.7%	20.1%
Professional Services	\$42,917	\$49,874	-13.9%	16.2%
Para-Professional Sub Group	\$32,882	\$38,239	-14.0%	16.3%
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Administrative	\$25,414	\$28,383	-10.5%	11.7%
Engineering	\$33,589	\$43,156	-22.2%	28.5%
Statewide Weighted Average	\$32,266	\$37,614	-14.2%	16.6%

***Health Care - Medical includes physicians and specialists - reputable market data was not available.*

This year, DHR's market analysis found Idaho's state employee wages currently lag labor market average rates by approximately 14.2%. A full market adjustment would require a 16.6% increase in pay, which would cost a staggering \$83 million in general funds.

Nursing wages continue to grow at extraordinary rates as the demand for nurses outpaces supply. Registered nurses employed by the State of Idaho make 34% less than their peers in the northwest. Registered nurse turnover is still high at 25.1%, compared to the statewide average of 13.3%.

Benefits

The state has a reputation of offering a generous benefits package, including health, dental, vision, life and disability insurance, retirement pension, paid holidays, and other paid leaves. Comparison of the state's benefits package indicates it is still competitive, but no more than other employers. The state benefits package, especially the retirement program with built-in safeguards, has been consistently funded.



Time for Change

The law indicates that state employees may expect to advance in the salary range to the labor market average rate for the pay grade assigned to a classification. Taking a first step toward a 5 year plan to achieve this goal includes:

- 4% pay range adjustment – estimated cost, \$1.6 million to all funding sources.
- 6.7% CEC – estimated cost, \$33.6 million in general funds.

Additional FY06 budget impacts include:

- 10% increase in health insurance premiums, estimated cost, \$6 million in general funds.
- 2/3% increase for the employers' share of PERSI contributions – estimated cost, \$4 million in general funds.
- 27th payroll in FY06 – estimated cost, \$20 million in general funds.

This administration, as well as others before, has inherited this market wage lag and the continuing expectation for correction. In light of the past and present budget realities, it is time to refocus the goals, and make room for change.

A competitive pay environment is the right goal, but addressing market pay issues with a one-size-fits-all approach appears to be the wrong strategy. Scarce resources require different appropriations based on the specific needs of occupational groups. As the study shows, some occupations are in greater need of an increase than others. For example, nursing occupations need a 20% pay increase to achieve market, but certain scientist jobs only need 1.6%. The ability to make pay appropriations by occupational group would give the Governor and the Legislature greater influence on the effectiveness of CEC distribution while agency heads would still have the discretion to address individual pay-for-performance. Changing the state compensation system will require broad support to succeed, and needs careful consideration by a wide array of stakeholders.

Recommendations

This year, the DHR Administrator has the following recommendations to the Governor for FY06 Change in Employee Compensation.

Strategy	Cost
1. Budget as much CEC as possible, up to 6.7%, for all agencies. Market studies and performance should guide distribution maximums for pay increases.	\$5 Million (general funds) for each 1% of salary increase
2. A 10% permanent merit increase for all jobs requiring Registered Nurse licensure.	\$1.4 Million (all sources)
3. One time money to support retention and recognition. Recommend 3% triggered by a FY05 year-end surplus.	\$15 Million one time appropriation—year end.
4. Special legislation to allow one-time merit or bonus awards from savings in operating or capital outlay budgets, after first 6 months of FY06.	No additional cost. May provide additional incentives for managers and staff to focus on efficiencies.
5. Fund the health insurance increase, and direct DHR and Dept. of Administration, to promote wellness, health education, and disease management in the workforce.	\$6 Million (general funds) for insurance premiums. Other services could be provided by redirecting current resources.
6. Oppose any expansion of retirement program benefits, such as the removal of cap on unused sick leave hours transferable to health insurance premiums. The ongoing costs, estimated at 1.4 Million need to be focused toward salary increases in the active employee population.	
7. Appoint a Total Compensation Task Force to design a new strategic plan for state employee compensation. The team could be composed of members of the Legislature, corporate community, and staffed by DHR, DFM, and Commerce and Labor experts. Consultation could be provided by the Hay Group as well as state and local HR experts.	Other than travel costs from the Legislative members and Hay consultation, operating costs could be absorbed by DHR.

Looking Forward

The concept of market-average pay expectations, as designed by the Legislature in 1994 and advancement through pay for performance only, is sound compensation philosophy. The inability of the state to adequately fund such a program has caused challenges that have grown exponentially. The benefit package has taken priority funding status, salaries have suffered disproportionately, and the package seems out of balance. It is time to take a fresh look at the principles, policies and practices underlying the total state employee compensation package.

I. Purpose

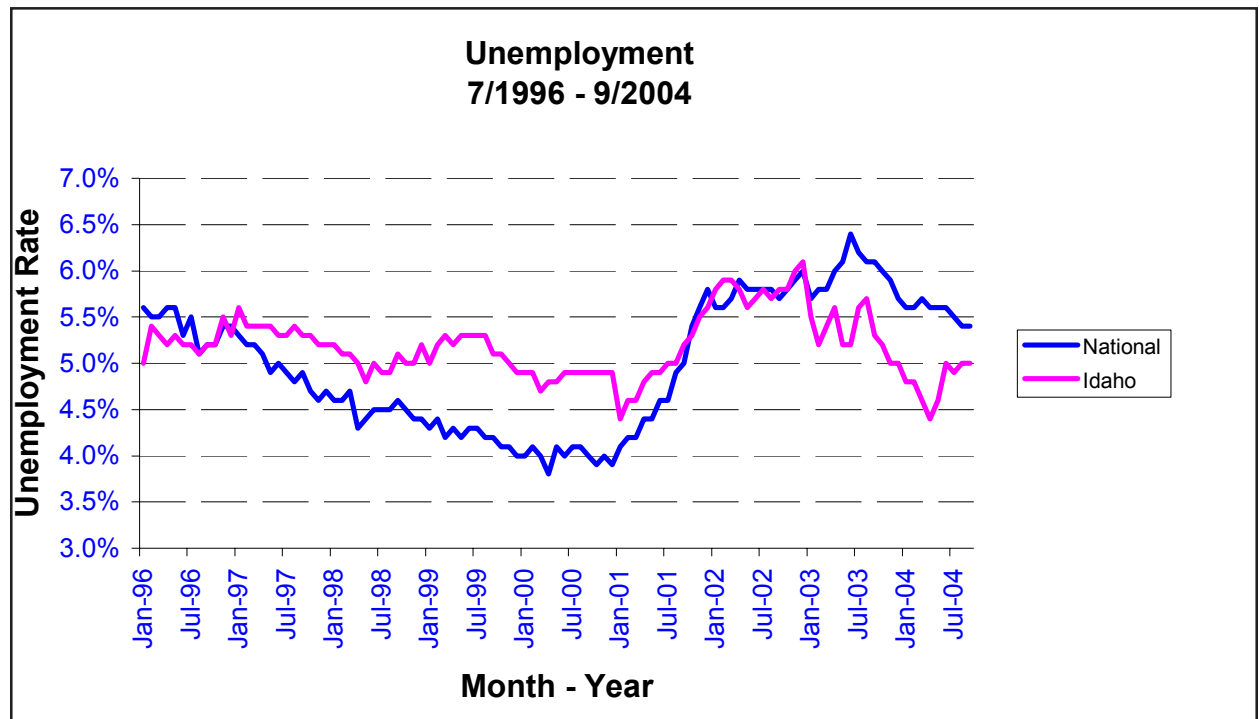
This report is provided to the Governor on December 1st to fulfill the requirements of Idaho Code Sections 67-5309A and 67-5309B, which were modified in 2004. Idaho Code requires the Division of Human Resources Administrator to:

- conduct or approve salary and benefit surveys;
- compare state wages and benefits to average labor market rates within the public and private sectors;
- report changes in the cost of living as measured by the CPI;
- report anticipated adjustments in the average weekly wage in the State of Idaho; and
- recommend changes in salaries and benefits, together with their estimated costs of implementation.

II. Economic Indicators

The change in the cost of living, as measured by the Consumer Price Index (CPI), increased 2.3% in 2003.

The national unemployment rate in October 2004 was 5.5%. Idaho's unemployment rate in October was 5.2%, equal to the October 2003 rate. The following graph illustrates changes in national and Idaho unemployment since 1996.



Idaho rural average unemployment rate was 1.2% higher than the Idaho urban rate in 2003. Skilled employees are in short supply even in markets where unemployment is high.

According to the Idaho Department of Commerce and Labor, average weekly wages in Idaho increased by 3% in 2003.

Average Weekly Wages

	<u>2002</u>	<u>2003</u>	<u>% Change</u>
Total	\$533	\$551	3%
Natural Resources	\$677	\$734	8%
Construction	\$597	\$589	-1%
Manufacturing	\$725	\$760	5%
Trade, Utilities, & Transportation	\$487	\$496	2%
Information	\$634	\$662	4%
Financial Activities	\$623	\$664	6%
Professional and Business Services	\$626	\$652	4%
Educational and Health Services	\$529	\$555	5%
Leisure and Hospitality	\$203	\$214	5%
Other Services	\$376	\$401	7%
Government	\$559	\$585	5%

The job market is an economic environment governed by the laws of supply and demand. Employers compete in the job market for the best and brightest employees who can help their business be successful.

State governments are some of the most diverse employers in the job market. State employment opportunities range from traditional skilled labor jobs, like plumbers and electricians, to highly specialized and technical jobs in fields like forensic science and epidemiology. Some jobs not only require a masters or doctorate degree, but also significant experience and specialized licensure.

III. Salary Survey Findings

CEC Salary Surveys

A salary survey provides wage data for a defined geography, industry, occupational group, or level of job. For a salary survey to be considered by DHR, it needs to be reputable, scientific, unbiased, and have job descriptions detailed enough to accurately match jobs. DHR does not use any salary survey information produced by special interest groups such as: trade groups, employee associations, or organized labor.

Wages are primarily driven by large established organizations. Survey data is not readily available for small independent businesses. Small businesses are often owner operated, may employ family members and often do not use standardized compensation plans. This year,

the following six third-party salary surveys were used to establish labor market rates.

1. The **Idaho Compensation and Benefits Survey**, prepared by 4HR, surveys 186 jobs with data compiled from 47 medium to large Idaho organizations - the state's direct competition for labor. A list of participants is included in the FY2006 CEC supplement.
2. The **Western States Salary Survey**, prepared by the Central States Compensation Association, surveys 214 state government jobs with data compiled from 9 states (WA, OR, NV, UT, NM, AZ, CO, WY and MT).

3. The **Northwest Management and Professional Salary Survey**, prepared by Milliman, surveys 178 jobs from 253 public and private organizations in the northwest. This survey provides salary data for more traditional management and professional level jobs.
4. The **Northwest Health Care Industry Salary Survey**, prepared by Milliman, surveys 240 jobs from 134 major northwest hospitals. This survey represents salary data for some of the hottest jobs on the market.
5. The **Northwest IT Professionals Survey** prepared by Milliman, surveys 111 information technology jobs from 64 public and private organizations in the northwest.
6. The **ERI Salary Assessor** is a survey that compiles and reports salary data from numerous salary surveys across the county. This data can be indexed to local markets. The Salary Assessor reports salary data for more than 5,500 jobs.

external labor market. Strong survey data needs to exist for a job to be considered a benchmark.

Accurate wage analysis requires that the sample of benchmark jobs statistically represent the organization's entire job population. This year's market analysis fulfills this requirement by covering 8,869 (68% of the classified workforce) employees assigned to 324 different classifications.

After the benchmarks have been identified and the jobs matched, each salary is weighted according to the number of employees in a given classification. The weighted averages as reported by respective salary surveys are compared to wages of employees who hold benchmark positions. The overall competitive position is calculated as follows:

Overall Competitive Market Position = (sum of actual employee salaries – sum of survey salaries) / sum of survey salaries

Methodology

State jobs are matched to jobs in the third-party surveys by reading job descriptions, evaluating work, and making comparisons. These benchmark jobs are identified and used as anchors for comparing internal pay levels to the

Market Pay Analysis Results

Idaho state employee average wages currently lag average labor market rates by approximately 14.2%, even after last years 2% CEC. A full market adjustment in FY06 would require a 16.6% increase, approximately \$83 million.

Occupation Group	FY2006			
	Weighted		Market Position	Market Adjustment
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National Salary Increases

World at Work (formerly American Compensation Association) conducts an annual salary increase survey. This year's survey includes 2,900 US organizations representing more than 12.7 million employees from a diverse cross-section of industries, including construction, manufacturing, transportation, publishing, information services, utilities, mining, health care, wholesale trade, retail trade, and the public sector. This is the most widely used report for tracking annual movements in salaries and salary structures.

According to the World at Work Annual Salary Increase Budget Survey, wages increased 3.5% in both 2003 and 2004.

Major Trends in 2004-05:

- US salary increases to average approximately 3.5%.
- 87% of US employees receive a base salary increase.
- 77% of the organizations reporting some form of variable pay. Average amounts of variable pay actually paid ranged from 5% for hourly workers, 10.9% for managers and 31.2% for executives.
- Pay schedules increase, on average, slightly lower than 2% in 2004.

IV. Changes to Federal Regulations

The minimum wage and overtime pay requirements included in the Fair Labor Standards Act (FLSA) are among the nation's most important worker protections. On August 23, 2004 the new regulations went into effect.

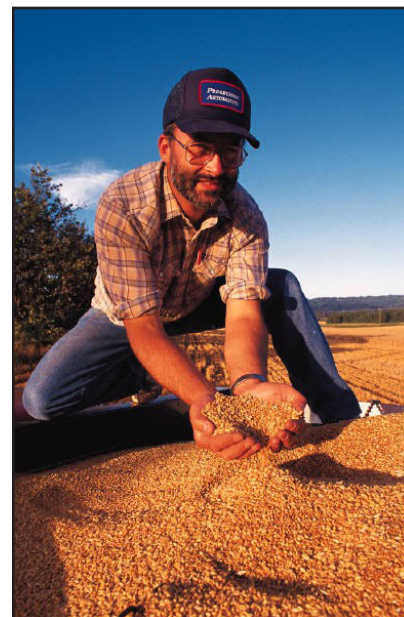
Under the FLSA, employees cannot be classified as exempt from the minimum wage and overtime requirements unless they are guaranteed a minimum weekly salary and perform certain job duties.

2004 FLSA Audit

DHR completed an exhaustive FLSA audit of the entire state classification system. Some of the changes were made to conform to the new regulations, and to correct misclassifications. The audit resulted in 22 state classifications, representing 193 employees, changing to exempt from FLSA overtime requirements. Of the 193 employees approximately 98 will still be paid overtime at time-and-a-half, due to competitive market practices. Approximately 100 employees lost overtime protection. Any change that reduces someone's earning potential impacts morale and employee relations. However, changes

resulting from the audit were necessary to ensure fairness and equitable treatment of all state employees.

The audit also resulted in 7 state classifications, representing 26 employees, that will now qualify for time-and-a-half overtime.



V. Benefits

The state offers the following employee benefits:

- Medical, dental, and vision insurance.
- Defined benefit pension program.
- Life and disability insurance.
- Paid vacation.
- Paid holidays.
- Paid sick leave.

In FY05, the cost of the state's benefits package increased. The state is contributing \$820 more per employee for health insurance and 2/3rds of 1% of an employee's gross pay for a PERSI contribution increase.

Private organizations have the ability to offer more progressive and unique benefit programs than public sector organizations. Examples of some of the more popular private sector programs include:

- Tuition reimbursement or assistance
- Child care or child care assistance.
- Personal leave programs.
- Employee stock purchase plans.
- Health club memberships.
- Tiered benefit packages for staff, managers, and executives



tools organizations have to address increases in health insurance costs.

In the public sector, including Idaho, the average age of the workforce has a sizable impact on the usage and cost of the state's health care benefits package. The Office of Insurance Management has requested a 10% budget increase for medical/dental insurance premiums for FY06, approximately \$6 million more in general funds.

PERSI

Idaho Code requires PERSI trustees to consider adjusting employee and employer contribution rates to control the plans unfunded liability. PERSI is continuing with its plan to increase contribution rates 1% (roughly 1/3 paid by employees and 2/3 paid by the state) in FY06. This increase mirrors the increase in FY05.

Another 1% rate increase will cost the state an additional \$2 million in general funds. The total general fund increase is approximately \$6.5 million taking into account the state's share of public school contribution rate increase. This represents funds equivalent to more than a 1% CEC increase.

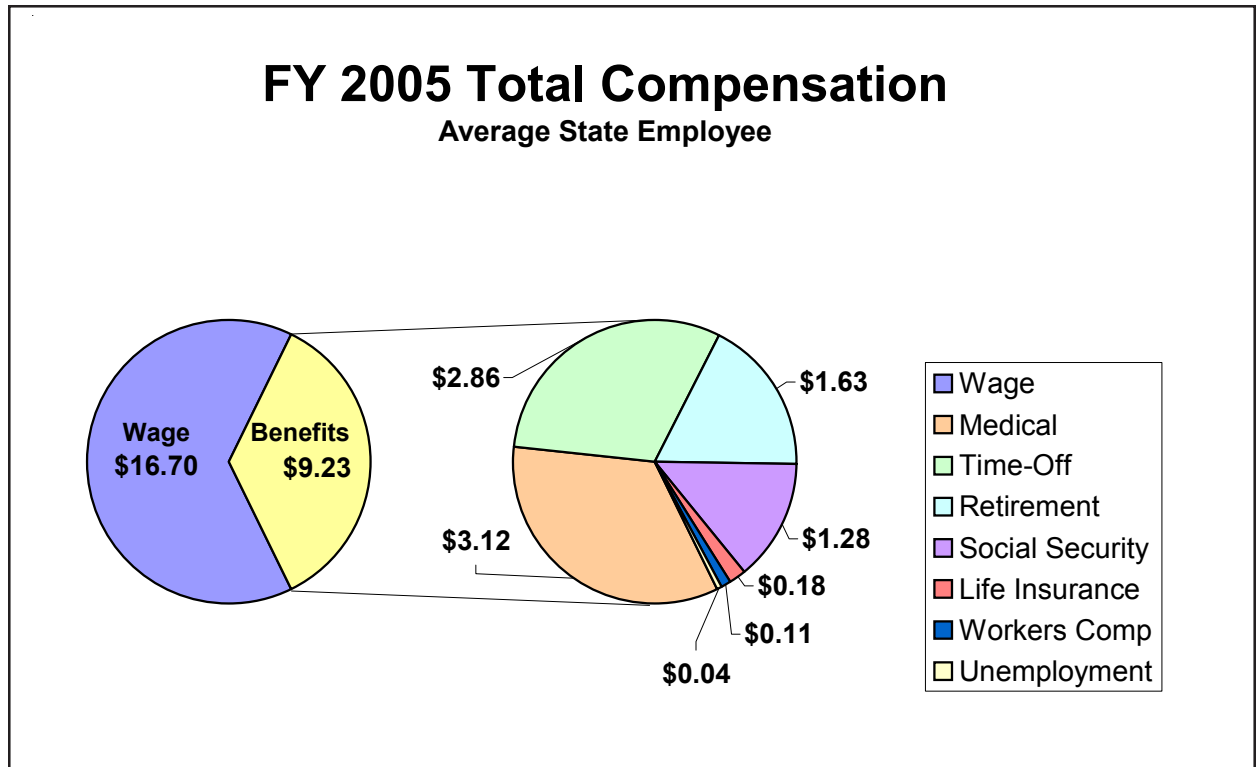
Health Insurance Premiums

Nationally, employee health insurance premiums are forecasted to increase an average of 12% to 15%. Public and private organizations are being forced to control health insurance costs by considering creative coverage alternatives and shifting some of the increase to employees. Sharing more costs is designed to encourage more informed health care decisions. This is one of the few

This FY06 PERSI rate increase seems disconnected to the state's overall budget picture. Most retirees will receive a 3.5% COLA this year, but state employees have not received parallel increases. The state, via its retirement program, has continued to treat retirees better than current active employees in regards to compensation. Current active state employees may experience a net decrease due to the rate increase.

Total Compensation

The average hourly wage for a classified employee is approximately \$16.70/hour and the state contributes another \$9.23/hour in benefits. On average, 37% of a classified employee's total compensation package is made up of benefits. The relative value of the benefits package increases the lower an employee's wage. For example: a liquor store clerk making \$10 an hour has 40% of their total compensation package made up of benefits, while a senior wildlife research biologist making \$25 has only 33% of their total compensation package made up of benefits.



How Does The State Compare?

Simply comparing benefit costs does not tell the whole story because costs are related to the age of the workforce, number of insurance claims, coverage options, differing time off accrual rates, and the details of defined benefit pension program.

This year, DHR contracted with Mercer Human Resource Consulting to provide an actuarial value of the state's benefits package. DHR defined two peer groups to compare against: one peer group includes both public and private organizations in the western United States, and the other peer group includes public organizations across the nation.

Based on Mercer's model, our benefit package, as a whole, is more competitive than that of private and public organizations in the western region, but less than that of the national public sector. There are some categories which the state is more competitive in comparison to both peer groups, like short term disability. There are other categories where the state is more competitive to one peer group than the other. For instance, the state is more competitive than the western region public and private sector peer group when comparing defined benefit plans, but less competitive when comparing defined contribution plans. More private organizations offer 401.k plans than defined benefit plans.

Following is a table which compares the relative value of the state's benefit program components with the two peer groups. The lower the number the less competitive the state is compared to the peer group. For example: the state's medical insurance benefit has a score of 2, which translates to being "Not as Competitive," as the value of the average medical benefits offered by western region public and private sector organizations.

Note: The FY06 CEC Supplement contains the actual indexed values for each of the benefit categories.

	State of Idaho Compared to Western Region Public and Private Sector	State of Idaho Compared to National Public Sector
<u>Total Benefits</u>	<u>3</u>	<u>2</u>
Defined Benefit	4	3
Defined Contribution	1	3
Medical	2	2
Dental	2	4
Life Insurance	3	5
Dependent Care - FSA	3	3
Health Care - FSA	3	3
Post Retirement Medical	1	1
Vacation	3	3
Holiday	3	3
Sick	4	3
Short Term Disability	4	4
Long Term Disability	2	2

Comparison Category	State of Idaho Comparison	
1	Uncompetitive	<60
2	Not as Competitive	60-89
3	Average	90-109
4	More Competitive	110-139
5	Highly Competitive	>=140

Idaho Employers

Every employer in the Idaho Compensation and Benefits Survey (a list of participants is included in the FY06 CEC Supplemental) offers their employees some form of a competitive benefits package. Every employer in the survey provides employees with medical and dental insurance, and prescription drug coverage.

in Idaho are nearly twice as likely to be offered benefits as part-time employees. The size of a business and the type of industry are also important factors in determining whether employees receive benefits and which benefits are offered.

2002 Idaho Department of Labor Benefits Survey Results

A spring 2002 survey conducted by the, then, Idaho Department of Labor concluded that full-time employees

The Idaho Department of Labor mailed the survey to 5,172 employers and 2,728 were returned, a response rate of 52.7%. Surveyed employers varied by number of employees, geographic region, industry, and type of ownership. The majority of businesses surveyed were

privately owned, but some local, state, and federal government offices were also included. The following table shows the overall results of the survey.

Results from 2002 Idaho DOL Benefits Survey

	Percent of Employers Offering	
	Full Time	Part Time
Paid Leave		
Paid Holidays	86.6%	36.1%
Paid Sick Leave	61.0%	26.3%
Paid Vacation	92.0%	32.4%
Paid Personal Leave	24.7%	4.5%
Paid Maternity Leave	34.8%	21.5%
Paid Paternity Leave	17.7%	3.4%
Paid Funeral Leave	40.2%	9.5%
Paid Jury Duty Leave	54.4%	27.1%
Insurance		
Health Insurance	81.5%	27.3%
Dependent Health Insurance	62.3%	23.5%
Dental Plan	57.1%	23.8%
Vision Plan	44.0%	20.6%
Life Insurance	49.1%	22.2%
Disability Insurance	35.8%	20.8%
Long-Term Disability	20.8%	2.7%
Retirement		
Retirement Plan Offered	63.8%	44.4%
Defined Contribution	42.0%	37.5%
Defined Benefit	13.0%	5.5%
Misc Benefits		
Wellness Program	27.6%	19.4%
Child Care	1.7%	1.1%
Profit Sharing	14.8%	4.2%
Employee Discounts	23.6%	17.4%
Relocation Assistance	15.0%	1.0%
Uniform/Tool Allowance	11.6%	4.6%
Telecommuting	12.7%	2.7%
Flex-Time	13.2%	10.1%
Other	1.8%	0.5%

VI. Challenges

Last year the Governor and the Legislature provided a 2% CEC increase and encouraged state agency heads to allocate agency salary savings to provide for employee salary needs before other operational budget priorities were considered. Because of a year end budget surplus; an additional 1%, one-time, pay increase was also funded and distributed.

State employees' wages increased this year, but prices and wages in the external market continue to grow faster than internal wages.

Employee wages and benefits are the largest cost centers for most organizations. Personnel costs are like other costs, they increase every year and need to be addressed every year. There are two ongoing funding components of a pay increase that need to be considered by the state every year.

Component 1: A general employee pay increase to meet the state's obligation to the pay-for-performance philosophy. This increase needs to be robust

enough to provide a real, tangible reward to high performing state employees and keep up with external market wage increases.

Component 2: Maintenance of the state's compensation system requires funding to move employee pay to new minimums. Providing timely and competitive pay increases minimizes the cost impact of maintaining the compensation system. The current cost of shifting the pay schedule is the result of so many state employees being paid at, or close to, the pay grade minimums. The pay schedule has not been adjusted since FY03 and is now much farther from actual market.

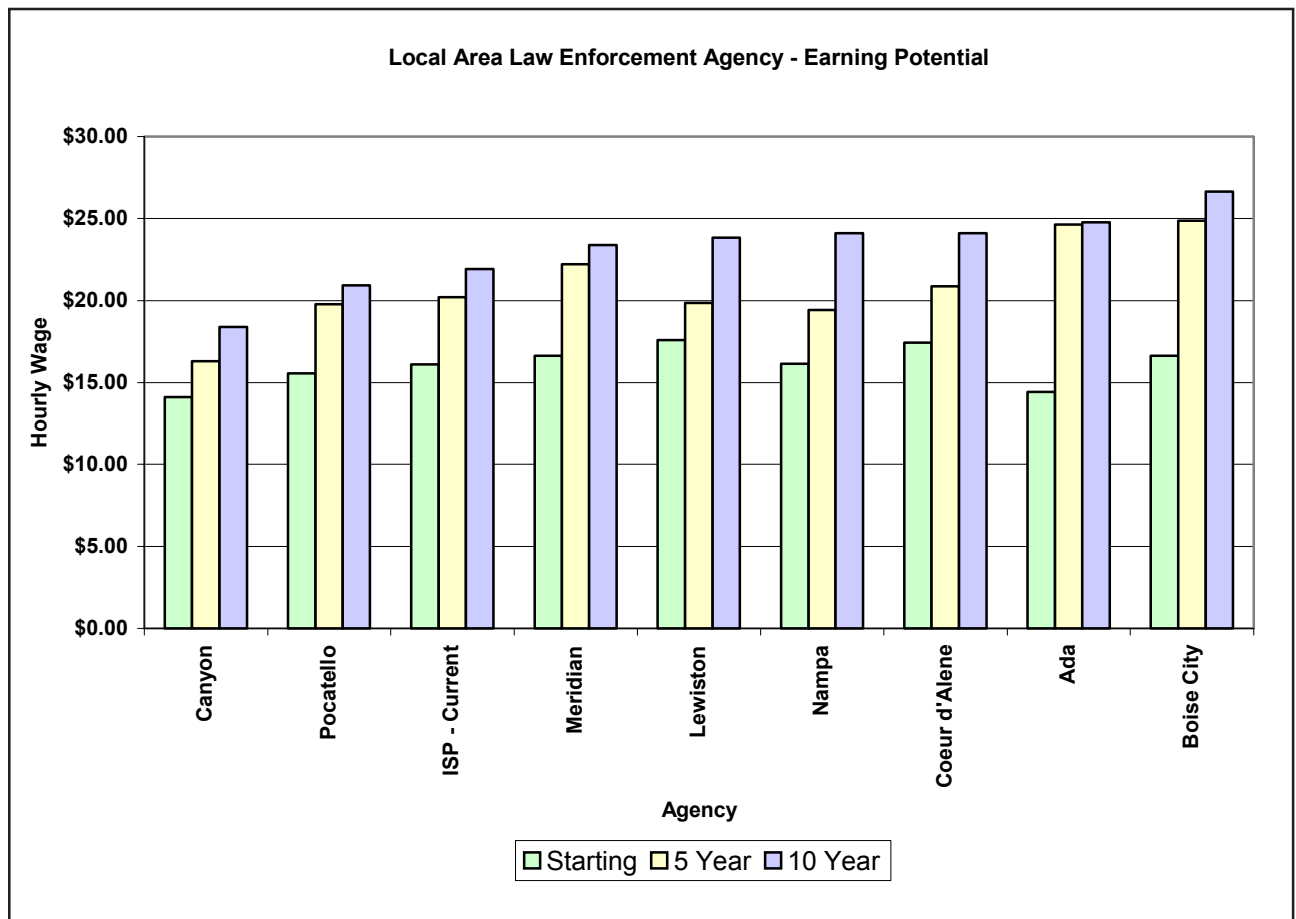
Nursing

The state also made up some ground on nurses' salaries. In fall of 2003, registered nurses were making an average hourly wage of \$18.50 and now they are making \$19.70 (an increase of 6.5%), an example of agencies' efforts to address the areas of greatest need and comply with legislative intent.

However, nursing wages will continue to grow as the demand for nurses outpaces supply. The average wage for registered nurses in the northwest is \$26.35 an hour; a pay disparity of 34%. Registered nurse turnover is still extraordinarily high at 25.1%, compared to the statewide average of 13.3%.

Protective Services

State Police: The Idaho state police are expected to be the lead law enforcement agency in the state. ISP commissioned officers (troopers, sergeants, captains and majors) are some of the lowest paid law enforcement professionals in the state when compared to some of the larger operations. The state makes a sizable training investment in each ISP trooper. Other law enforcement agencies know this and they actively recruit state troopers. The annual turnover for ISP trooper is consistent with the state average of around 13%, too high given the substantial training investment.



Correction Officers: Correction officers are like state police in relation to a substantial training investment. Annual correction officer turnover is around 23% - this represents a sizable investment that is lost every year. Correctional officer is a lower wage job (\$11.53 an hour to start) considering the nature of the work. Because of the low wage, there are many other employment options for correction officers that provide a safer, more attractive work environment. The weighted average wage for correction officer in the Central States Compensation Association Salary Survey is \$15.54 an hour, in contrast, the State of Idaho pays correction officers, on average, \$12.82 an hour. Out of the 25 states represented in the survey Idaho is ranked the 9th lowest for correction officer pay.

Turnover

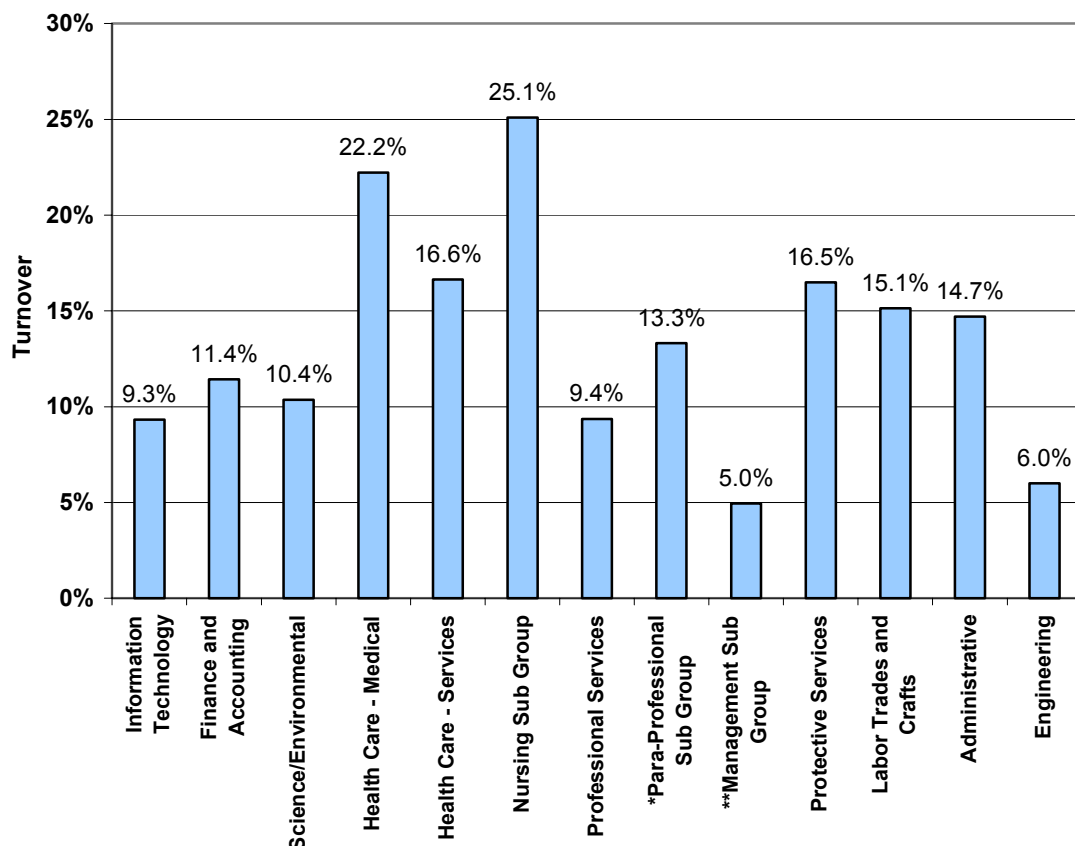
Over the past year the state has experienced annual state employee total turnover of around 13%. State employee total turnover has fluctuated between 12 and 18% since FY98. The average annual total turnover within the

government sector as a whole was reported to be around 14% in 2003.

Why is turnover low?

- **Older Employees** – The average state employee is 47 years old. Many older employees consider public service a career and plan to stay with the state until they retire.
- **PERSI** – PERSI is a very attractive retention tool because it is not portable. To maximize retirement benefits, employees need to stay with the state until they are service retirement eligible. It is not always financially prudent for vested employees, especially older employees, to sacrifice a guaranteed retirement benefit to make a higher base salary with a different organization.
- **Health Insurance** – Employee health insurance can also be an employment incentive especially for employees in lower pay grades. The state currently pays \$6,493 a year per employee for medical/dental insurance premiums – a relatively large part of the total compensation package for lower paid employees.

Turnover by Occupational Group



Compression

Compressions occurs when a new employee's starting wage is the same, or close to, the salary of a current employee in the same job. This is the result of external market wages growing faster than existing state employee wages.

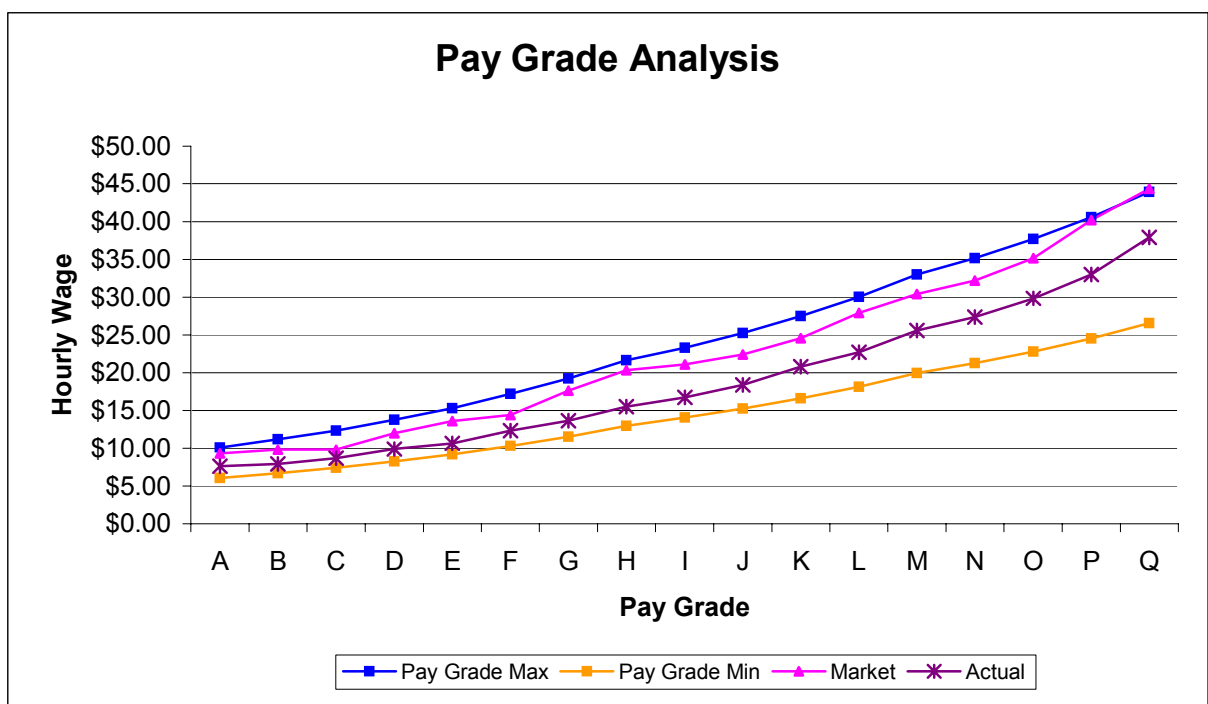
Wage compression continues to be a substantial challenge. Hiring managers have the authority to hire new employees at market competitive rates, but they do not have adequate funding to address internal equity and the below market salaries of their current employees.

Pay Schedule

The State of Idaho pay schedule has 24 pay grades. The state pay grades are 75% to 125% of the policy point (often referred to as the mid point). The chart shows the minimums and maximums of the pay schedule as well as the market pay line and actual average employee pay line.

Pay Schedule Trends

- The average market pay levels are more than the state policy points in every pay grade except "C".
- The average market pay is getting very close to the top of the pay ranges. The market rate is actually more than the maximum in pay grade "Q."



The policy points have been below market for a number of years, but now the range maximums are at risk of falling behind the market. The state recruits many employees with the prospect they will one day advance to a market rate even if the starting pay is somewhat less than desirable. This attraction is diminishing.

Pay Grade Progression

23.7% of state employees are paid at or above the pay grade policy point (compared to 16.6% reported last year). Employees who are paid at the pay grade policy point have worked at the state for an average of 16.5 years. However, the policy points are well below the market rates.

The compa-ratio gauges an organization's pay practices against a defined policy. A compa-ratio less than 1 would indicate an organization is paying below their established compensation policy, while a compa-ratio above 1 would suggest the organization was paying above the policy. The compa-ratio is calculated as follows:

$$\text{Compa-ratio} = \frac{\text{employee actual pay}}{\text{pay grade policy, or mid point.}}$$

October 2004 Classified Employees Comparatio

Comparatio Category	Number of Employees	Percentage of Employees	Average Yrs of Service
.75 to .874	5,661	43.8%	7.1
.875 to .99	4,202	32.5%	14.4
1.00 to 1.124	2,406	18.6%	19.3
1.125 to 1.25	651	5.0%	24.8

One-Size-Fits-All Compensation System

To be competitive, a compensation system should be flexible enough to react to changes in the market and allow for tailored compensation approaches. The state is unable to recognize market trends for different types of work due to the constraints of a one-size-fits-all compensation system. Structurally, the current compensation system has two major weaknesses:

- No Recognition of External Market Differences: The Hay point factor job evaluation method values jobs with respect to know-how, problem solving and accountability, but does not address the impact supply and demand has on job market prices. Jobs with the same Hay points are not priced the same by the market.
- Inability to Create Tailored Compensation Approaches: The state has a wide array of different types of jobs. Different types of work often require different reward and recognition solutions. Customized compensation approaches could react to the market, decrease turnover, and improve employee morale and productivity.

VII. Potential Solutions

A. Focused Merit Increase for Nursing Jobs

A merit increase targeted for nursing occupations is recommended again to address high turnover and a sizable market pay lag. A 10% focused merit increase for the following nursing classifications (approximately 630 employees) would cost an estimated \$1.98 million (all funding sources).

Classification	Employees	Annual Cost*
Nurse, Advanced Practice	33	\$91,553
Nurse, Registered	165	\$561,583
Nurse, Registered Manager	11	\$71,065
Nurse, Registered Manager - Institution	19	\$92,288
Nurse, Registered Senior	125	\$532,141
Nursing Services Director	3	\$19,442
Nursing Services Director - SHN/ISVH	4	\$17,286
Subtotal	360	\$1,385,359
Nurse, Licensed Practical	135	\$376,138
Nursing Assistant, Certified	118	\$197,711
Nursing Assistant, Certified - Senior	10	\$23,271
Subtotal	263	\$597,120
Total	623	\$1,982,479

* All funding sources

B. Step System – ISP Troopers and Correction Officers

A “step plan” is a regimented pay system reflecting an employee’s contribution and value increases as experience and competencies are gained. A step is usually defined as a pay increase based on the evaluation of performance over a period of time, usually a number of years.

Utilizing a step program to manage pay for ISP troopers and correction officers would make sense based on the nature of the work and the organizations. A step system requires an annual funding commitment, which could be covered by an approximate 3% CEC allocation. This system will be more competitive, and allow current and potential employees to plan for their financial futures.

C. Increasing Salary Ranges on the Pay Schedule

Shifting the pay schedule would be very costly, since so many employees are paid near the bottom of the pay range. 44% of classified state employees are in the lowest quarter of their respective pay range. A mandatory pay increase, for those employees at or near the pay range minimum, from a pay schedule shift would further exacerbate pay compression. The following table shows the annual approximate “move to minimum” pay rates, adjustments necessary for pay schedule shifts of 4, 6, 8, and 10%.

Pay Schedule % Shift	Employees Impacted	Annual Move to Min Adjustment*
4%	2,695	\$1,587,592
6%	3,508	\$2,986,366
8%	4,259	\$4,795,615
10%	5,003	\$6,931,911

* all funding sources

D. Ongoing Pay Increases

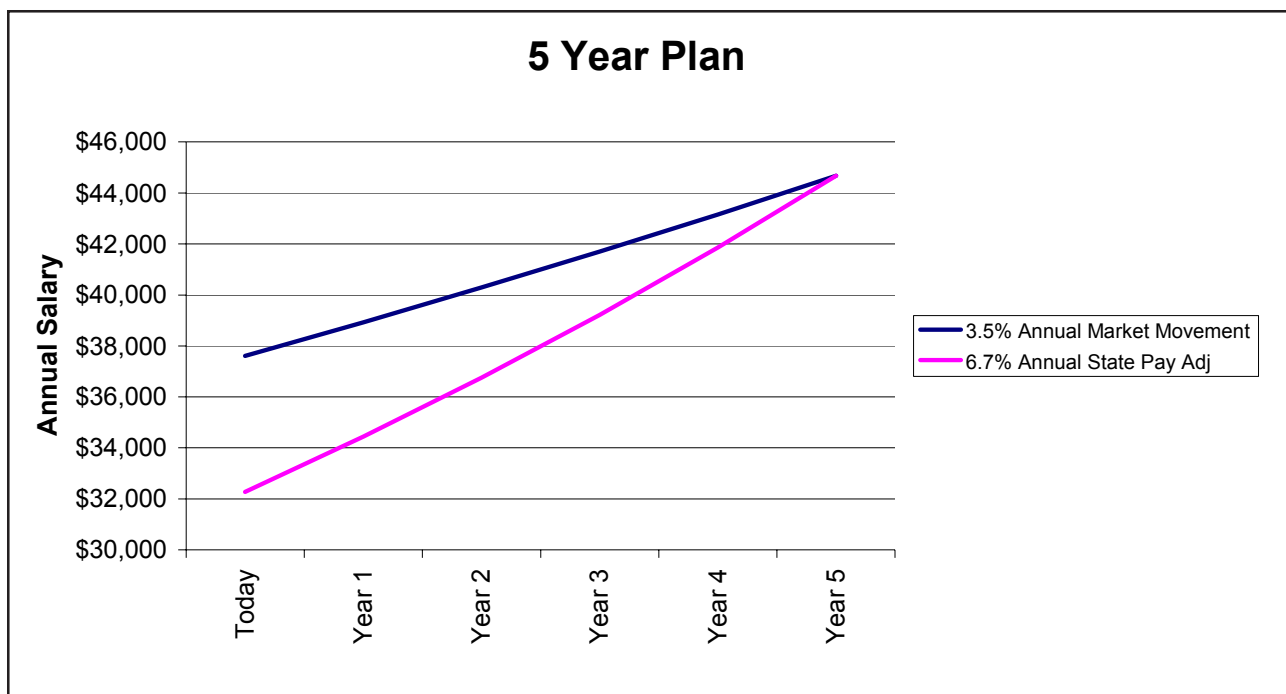
Achieving market parity in FY06 would cost approximately \$83 million. To address such a sizable market disparity (14.2 %) the state could stagger increases over a defined time horizon. One solution (outlined below) achieves market parity in 5 years. This solution also reflects Idaho State Code 67-5309C(B) which states “It is hereby the intent of the legislature that an employee may expect to advance in the salary range to the labor market rate for the pay grade assigned to a classification.”

Five Year Plan

Given a five year time horizon and U.S. wage growth of 3.5 % annually, the State would need to increase wages 6.7 % annually through FY10 to achieve market parity. In FY06 this would cost roughly \$33.6 million.

Year	Market Movement	Market Salary	State Increase %	State Wage	*Estimated Total Cost
Today		\$37,614		\$32,266	
Year 1	3.50%	\$38,930	6.7240%	\$34,436	\$33,620,000
Year 2	3.50%	\$40,293	6.7240%	\$36,751	\$35,880,609
Year 3	3.50%	\$41,703	6.7240%	\$39,222	\$38,293,221
Year 4	3.50%	\$43,163	6.7240%	\$41,859	\$40,868,057
Year 5	3.50%	\$44,674	6.7240%	\$44,674	\$43,616,025
Total					\$192,277,912

* Annually compounded - based on \$5MM per every 1% increase



E. Compensation System Reform

Recommendations have been made the last two years for an overall study of the state's total compensation system. A more effective system would allow decision makers to focus funding on the unique needs of defined occupations. Since some jobs are closer to market average rates than others, it may be time to discontinue the general CEC appropriation with little or no direction in regards to how pay is distributed. Advances in technology would allow the State to fund CEC by occupational group. Agencies could receive allocations based on the number of classified employees in the different occupational groups. The Governor and the Legislature would have greater influence on the effectiveness of CEC distribution while agency heads would still have the discretion to address individual pay-for-performance.

Changing the state compensation system would not include doing away with the "Hay System." The "Hay System" is not a compensation system, but rather a tool for internal job analysis and valuation. The Hay point factor method of evaluating work would need to be an integral part of any new state compensation system by insuring internal equity.

F. Pay Line Exceptions

The pay line exception is a tool (Idaho Code Section 67-5309C(b)(i)) that allows the Administrator of the Division

of Human Resources to assign a classification to a higher temporary pay grade.

DHR has been conservative in the use of the pay line exception. The pay line exception is meant to be a short term solution to obtain qualified personnel in a particular classification and then rescinded when pay schedule adjustments catch up with market rates. The pay line exception may need to be widely considered due to pay grade maximums for several state classifications being uncompetitive, or at the risk of becoming uncompetitive. The pay line exception could quickly become the standard expectation for agency managers facing a recruitment and retention crisis. Widespread use of the pay line exception will create a multitude of entitlement issues and may damage the foundation and credibility of the state compensation system.

G. One-Time Pay Increases

The popularity of variable pay continues to grow. In 2001, 66% of employers reported using variable pay. This year, 77% of employers report the use of some form of variable pay. Variable pay allows employers to reward and recognize employee and/or organizational performance without impacting ongoing labor costs.

Last year the budget surplus triggered a 1%, one-time, pay increase for state employees. Any pay increase

should be performance based, and agencies should have the discretion to distribute any variable pay based on individual employee contribution. An across-the-board distribution disregards pay compression, individual performance, and the market.

H. Across-the-Board Pay Increases

An across-the-board pay increase runs counter to the state's pay-for-performance, and has no regard for

market competitive pay rates. Across-the-board increases can be demoralizing to high performing employees by removing incentives to over-achieve. Across-the-board increases also exacerbate compression. To deliver a reward to a new employee equal to one received by an employee who has been with the state for 5 years ignores their individual value and contributions to the organization.

VIII. Recommendations

The potential solutions discussed in the last section show a number of ways for the state to address the issue of competitive pay. Based on the information available in the fall of 2004, the following recommendations are being made for FY06 Change in Employee Compensation.

Strategy	Cost
1. Budget as much CEC as possible, up to 6.7%, for all agencies. Market studies and performance should guide distribution maximums for pay increases.	\$5 Million (general funds) for each 1% of salary increase
2. A 10% permanent merit increase for all jobs requiring Registered Nurse licensure.	\$1.4 Million (all sources)
3. One time money as to support retention and recognition. Recommend 3% triggered by a FY05 year-end surplus.	\$15 Million one time appropriation—year end.
4. Special legislation to allow one-time merit or bonus awards from savings in operating or capital outlay budgets, after first 6 months of FY06.	No additional cost. May provide additional incentives for managers and staff to focus on efficiencies.
5. Fund the health insurance increase, and direct DHR and Dept. of Administration, to promote wellness, health education, and disease management in the workforce.	\$6 Million (general funds) for insurance premiums. Other services could be provided by redirecting current resources.
6. Oppose any expansion of retirement program benefits, such as the removal of cap on unused sick leave hours transferable to health insurance premiums. The ongoing costs, estimated at 1.4 Million need to be focused toward salary increases in the active employee population.	
7. Appoint a Total Compensation Task Force to design a new strategic plan for state employee compensation. The team could be composed of members of the Legislature, corporate community, and staffed by DHR, DFM, and Commerce and Labor experts. Consultation could be provided by the Hay Group as well as state and local HR experts.	Other than travel costs from the Legislative members and Hay consultation, operating costs could be absorbed by DHR.

IV. Looking Forward

The concept of market-average pay expectations, as designed by the Legislature in 1994 and advancement through pay for performance only, is sound compensation philosophy. The inability of the state to adequately fund such a program has caused challenges that have grown exponentially. Benefits have taken priority funding status in tough budget years, salaries have suffered disproportionately, and the compensation package appears to be out of balance. It is time to take a fresh look at the principles, policies, and practices underlying state employee total compensation.